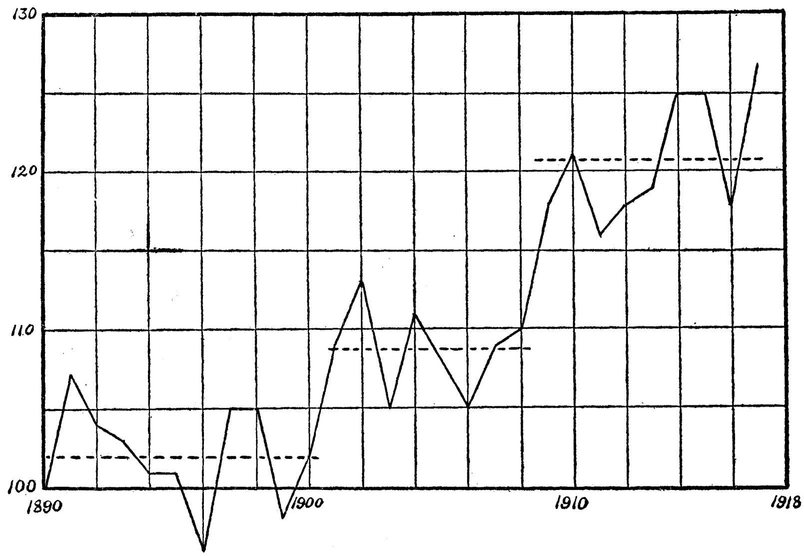
PRICE FIXING—DISCUSSION

E. G. Nourse.—My attention was challenged by the following sentence, which occurs in the version of Professor Warren's paper which was submitted in advance of this meeting:

"If the dollar were stabilized most of the clamor for price fixing in this country could have been avoided."

I did not catch these exact words in his address this afternoon, but throughout a considerable part of his discussion there is manifest the same tendency to assign "inflation" as the principal cause of price-fixing sentiment and endeavor. It seems to me that this idea is hardly consistent with the facts, nor, indeed, with other parts of Professor Warren's own paper. The price-fixing movement in this country has derived its chief and permanent emphasis from the desire to lower the urban cost of living, and this in turn has been, more than anything else, an effort to counteract the rise in the values of farm products. Even if the dollar could be stabilized, we should not thereby have solved this problem—a fact which is readily demonstrated by a graph of the prices of farm products stated in terms of a theoretically stabilized dollar. We all know that the average price of the principal farm products, as given by the United States Bureau of Labor, is now nearly twice what it was in 1890. If, however, the dollar be given the same purchasing power throughout the period from 1890 to 1917, we shall get some idea of the actual increase in the cost of living.



On the accompanying chart the index of all commodity prices is reduced to 100, and farm prices are all plotted upon that straight-line base. The *relative* price of farm products is thus seen to have been tolerably stable during the 90's, slightly advancing during the next decade, but markedly and persistently rising during the past ten or twelve years. The chart shows a natural division into three periods: the first, 1890 to 1900 inclusive, in which the average index is 102 (the dotted line on the chart) and the extremes are only 5 above and 6 below this level; the second, 1901 to 1908 inclusive, in which the average level stands at a trifle less than 109, with maximum variations at 4 points higher and 4 points lower than this average; and the third, 1909 to 1917 inclusive, averaging 121, varying from 116 to 127, and apparently showing an upward trend in its later years.

Here, to my mind, is to be found the central cause and purpose of the price-fixing movement in America and clear evidence of the fact that it is much more than a war-time issue. We have really been under the shadow of this problem since 1908-09, when the exchange ratio of farm products (not their mere gold price) jumped from 110 to 118, a point below which it has since receded in only a single year, 1911. This means nothing more nor less than that the exchange ratio between the indispensable food and textile products of the farm on the one side, and non-agricultural goods and services on the other, has moved in a direction counter to the desires of town and city consumers of these farm products. Among this large portion of our population there arose, about 1909 and has continued since, a tremendous desire to release themselves from the less favorable situation in which they were placed as a result of this readjustment of values. This motive had grown strong in the years before we became involved in war, but it had not become specifically a demand for price fixing, owing probably to our unfamiliarity with such a practice. Our entering into the war, however, brought this tool within reach of those who clamored for relief and had demanded vaguely that "something must be done." Such persons gladly acclaimed the simple, direct, and militaristic expedient of price fixing, and conceived an exaggerated notion of its efficacy and benefits. They did not stop to examine what were the fundamental causes which had brought about this altered market ratio of farm products to other goods. Professor Warren has referred to these underlying causes as pressure of the population on our food supply. I should prefer a different phrase, but there is no question of the fact that, with the passing of our virgin lands, an irremediable factor becomes operative toward the en-

hancement of the exchange value of our food supply. What the public should be brought to realize is that the ratio which maintained in the 80's and 90's was abnormal and ephemeral, whereas that of the present approximates much more closely the normal and permanent adjustment with which we must deal in the future. On the other hand, this does not mean that we must go from high to higher prices, and thence to famine prices and the retardation of our civilization. A suitably organized agriculture can secure such a measure of technical efficiency as to assure moderate prices of farm products throughout the longest discernible future.

Here, I believe, is the heart of the whole matter. Price-fixing propaganda has taken no account of the true situation and needs of agricultural producers and of the long-time effects of price-fixing policies. Mere pounding down of prices, while giving temporary relief, is in danger ultimately of enhancing prices by impairing the productive efficiency of our farmers. I am not unmindful of the good counsel given us last night by Professor Fisher, wherein he warned us against class bias in our economic thought and action. He mentioned specifically that the agricultural college teacher is in danger of becoming a partisan economist of and for the farming class. I have no desire to appear as the apologist for any class interest as such. But, on the other hand, to ignore the fact that there is an inevitable divergence of interest, of which the price-fixing agitation is a tangible expression, and hence to fail to meet the issue frankly and helpfully in its early stages, is to force it to come sooner or later to an open conflict between antagonized economic classes. Therefore, a word of honest caution may not be out of place.

Price-fixing agencies have shown too little understanding of the business of farming, too little desire to go to the bottom of the matter, too cavalier an assumption that the interests of city populations in lower prices must be met willy-nilly by the paring down of producers' returns. Such methods are not calculated to avoid class antagonism, but to make it inevitable. And furthermore, the very attempt to set the interest of urban consuming population above that of the rural producer is in danger of defeating itself. To be sure, "there are no more Iowas waiting for the plow." But new types of industrial efficiency in agriculture await the development of a farmer class who are adequately trained, suitably organized, and well equipped with the capital goods needed for the practice of scientific agriculture. The low prices of farm products in the later part of the last century did not permit of this progressive condition being brought about as

rapidly as could have been desired. Recent prosperity of the farmer has made possible a considerable development in this direction, but price fixing which will force prices back to those lower levels—that is, the exchange ratio rather than the mere dollar price—would defeat its own end by impairing the efficiency of agriculture and precluding the reduction in cost of production which would otherwise be possible. Such price-fixing notions as the public at large entertain are penny wise and pound foolish even from the standpoint of the consumer's best interests.

Professor Warren appears to entertain a low opinion of the power of price regulating agencies. I wish that I could share this belief in their impotence. If, in truth, price-fixing projects were powerless to depress prices whenever any natural force was inclining toward their enhancement, I should be a good deal less concerned about our future. But the war period has to my mind demonstrated a considerable efficacy on the part of these agencies, and the older period of agricultural unprosperity has shown a disquieting tendency on the part of our agricultural population to stay with the industry even when it is being crowded down to a position of unprofitableness, inefficiency, and a low standard of living.

If it be part of the economist's true function to furnish that sound counsel by which class interests may be kept from developing into divisive antagonisms and economic warfare, then it is to be hoped that our influence will be thrown against ambitious programs of price fixing as part of our after-war economic arrangements. While I believe that many of the activities of the Food Administration which have looked to the regulation of trade practices have had a beneficial effect, the net result of regulation as a whole has been to bring into clearer contrast the interests of the consumer and the producer of farm products. The Food Administration, by limiting traders' margins and regulating their methods, has, so to speak, publicly exhibited the middleman in a strait-jacket, and, in effect, has relieved him of the responsibility with which he was formerly charged, by both producers and consumers, for the high cost of living. This tends to draw the issue more clearly than ever between the farm producer and the city consumer. If their price relationships are left to be adjusted to the process of market bargaining, both parties will bow to the inexorable force of underlying economic influences. But if the arbitrary power to name prices be given to any executive or tribunal, and particularly if its personnel fall a little short of ommiscient wisdom and a quality of justness above the reproach even of injured parties, its exercise is bound to

engender open antagonisms, mutual recriminations, and, as already indicated, in all probability such short-sighted efforts to lower prices as to put in jeopardy the efficiency of our agricultural industry and in the end increase both the market and particularly the social cost of our food supply.

W. F. GEPHART.—Any plan of price fixing by the government, whether in times of peace or war, should keep in mind the interests of producers as well as of consumers. Since the demand for price regulation has usually come from consumers, it has been the interests of this group which have usually been uppermost in the minds of those enacting price regulation. Certainly in this country, up to the time of the recent war, it was the consumer who had been primarily held in mind in our price legislation and regulation. There is some indication, however, that the necessity of taking account of production cost in any price regulations is being more clearly realized.

It is true that under any price-fixing system consumers can not be classified and a price established for each class, notwithstanding that the buying ability of consumers differs more widely and more greatly than the production cost of producers. Under free competitive conditions there is more or less classifying of buyers, and both goods and prices on them are made with this understanding in mind.

Price fixing by governmental authority involves standardization of price and hence of producers. There is undoubtedly in this respect a marked loss in that the product upon which the price is fixed represents to different classes of consumers varying acquisition costs.

Since, therefore, price fixing can concern itself primarily only with producers, the first problem which arises is to adopt some standard if the unit price system is decided upon as compared to a multiple price system. Let us examine some of the difficulties to be encountered in each system, both in times of peace and war.

The multiple price system would need to be applied, if adopted, to all commodities except those produced under monopolistic conditions. These latter conditions are so rare that they may be disregarded. The multiple price system involves first an analysis of costs in the various plants of the producers as well as of distributors, middlemen, and retailers. This at once suggests the impracticability of the system. There are so many different producers and distributors of almost every important commodity, scattered throughout different sections of the country, that an army of investigators and accountants would be needed to arrive at the cost of production in each plant. Even if such

a figure of cost could be secured, there are so many fluctuations of individual items in cost, as well as so many joint costs, that a fair result arrived at at any one time would soon be incorrect because of these changes.

It may be urged that producers and distributors could be grouped by sections, but the difference in costs of individuals in any one group would probably be as great as that of different producers in different sections. The whole plan of arriving at multiple costs is practically impossible and unworkable, whatever may seem to be its theoretical fairness to producers and consumers.

We therefore come to a consideration of unit price, either for the product as a whole or for it in certain established groups or regions. The questions which arise are: Which producer should be taken as a basis or standard? Shall it be the most efficient producer or the marginal producer?

In this connection there arises a leading principle of price fixing during conditions of war as contrasted with conditions of peace. During war times, especially in our recent war, a prime result to be secured was the keeping up and stimulating of production. In order to do this a price should be fixed which would encourage increased production on the part of the more efficient, but it also should be such as to keep in the market the supplies of the less efficient. It will, therefore, be found upon a careful examination of price and margin fixing during the recent war, that the margins established, or the actual price fixed, was so liberal as measured by the cost of production of the most efficient, that the result desired—namely, increased production—has been secured.

It may be inquired whether this result has been achieved at the expense of the consumer. Without being able to answer this question completely, it may be pointed out that there has been at least one undoubted gain for the consumer. This is that the price has been stabilized, and many consumers, in different sections of the country, where from time to time supplies have been short, have been protected from what otherwise might have been a quasi-monopolistic price.

A stabilized price is a kind of insurance, reducing risk both for producers and consumers. The fixing of the liberal price—a marginal producer's price—in war times gives a feeling of security and assurance to producers that is distinctly advantageous. They have only to think of the element of cost; that is, how to organize and carry on production so as to bring it as far as possible below this fixed price.

Likewise, from the viewpoint of the consumer, there is this kind of

assurance during war times when uncertainty is greatest both for consumers and producers. The fixation of the price discounts speculation by consumers, who are the most inefficient of all risk takers.

Furthermore, there is the psychological consideration that consumers will tolerate fixed prices and an empty market in war times, whereas they would rebel against unregulated high prices. In short, price fixing on the basis of marginal cost reduces risk both to producer and consumer in war times, and prevents unintelligent speculation on the part of each class.

It is true that in fixing a price or margin primarily on the basis of the less efficient producer, a wide margin of profit has undoubtedly been secured by the more efficient in a number of cases. However, if a war taxation system had been devised adequate to the situation, this result could have been counteracted by means of the tax collected by the government.

Price fixing on the above described principle has met surprisingly little objection from the trades themselves. This is due not only to the fact that satisfactory margins have been allowed, but also to the following important fact: in many of the businesses where price has been regulated, as, for example, in the food-distributing business, excessive competition has been the rule and price-cutting of all descriptions a generally followed practice. If, therefore, a disinterested party, such as the government, stepped in and proposed a fixed price, though this may not have been entirely satisfactory to all members of the trade, they were at least assured of stability and fair dealing because an established price or margin was enforced upon all groups of the trade. No commonly so-called unfair advantages could be taken. It was for each one to devise improved methods of conducting the business if he desired a larger measure of profit.

In this connection the question may arise whether a system of price fixing tends to discount improvements in methods of conducting business, due to the fact that in a certain sense guaranteed profits are assured. It is safe to say that such are not the results, for with any given fixed price the inducements to improve business organizations are quite as great in order that the production and selling cost may be as far under the fixed price as possible.

The results achieved in price fixing during the past war undoubtedly are far beyond the expectations of accomplishment of many economists in the prewar period. Nevertheless, we should not delude ourselves into believing that obstacles would not arise in peace times which are not met in times of war.

One of the most important factors in making any price-fixing system successful is such a system of inspection as will assure observance of this price. During war times there has been devised not only an extensive machinery of the government itself, to see to it that these fixed prices were observed, but there has also been that even larger army of volunteer inspectors on the part of the purchasing public and members of the trade. It is safe to say that in times of peace no such reliance could be placed upon such volunteer inspections. The government itself would have to organize a very large force to supervise the observance of these prices; and under competitive conditions, unless these could be absolutely guaranteed, there would be every inducement on the part of competing concerns to violate the regulations as to prices and margins.

Then too it must be realized that motives of patriotism actuate both the producing and consuming public, which are not in operation in peace times.

It should also be observed that information as to costs can be secured and agreements made more easily in war times than in peace. Any governmentally constituted body, made up of anything short of supermen, would find it an almost impossible task to determine at any one time the fair price of many articles upon which prices have been fixed.

It should be further realized that fixing the price of cotton, steel, and food commodities is much more complicated than that of arriving at a fair rate for public utilities, in which there are so many more static elements of cost. Food commodities are subject to many conditions of cost determined by seasonal factors, and the complexity confronting the government in determining the price of many of these articles would be overwhelming. The price that is determined by the normal competitive conditions of the market may be more safely trusted to be just for both producers and consumers than one arrived at by the activities of a governmentally constituted body of mere men.

Under competitive conditions, the activity of the producer, and the risk-takers, will more likely insure to the consumer the lowest possible price and the greatest amount of stability. Government insurance of a fair competitive price in peace times is a supererogation, for normal prices have already distributed the risk in an equitable manner.